

TENNESSEE HOUSING DEVELOPMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001, AND JUNE 30, 2000

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 *et seq.* The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

Agency operations are directed by a 19-member board of directors. The board consists of five members who serve *ex officio* (the State Treasurer, the Comptroller of the Treasury, the Commissioner of the Department of Finance and Administration, the Secretary of State, and a staff assistant to the Governor), and 14 appointed members -- 12 appointed by the Governor and one each by the Speaker of the House and the Speaker of the Senate. The board includes representatives of the housing, real estate, home-building, and mortgage-lending industries; representatives of local government and nonprofit organizations; and citizens from the public at-large.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body, approves its budget, and provides some financial support. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The agency follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989. Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, and Homeownership Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

d. Depreciation

The agency records furniture and office equipment at cost and follows the straight-line method of depreciating the assets over their estimated useful lives, which are determined considering physical factors as well as obsolescence factors.

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e. Bond Issuance Costs, Refunding Costs, and Interest Accretion

1. Bond Issuance Costs: The agency amortizes bond issuance costs using the bonds outstanding method over the life of the related bond issue. Unamortized bond issuance costs are reported as deferred charges.
2. Bond Refunding Costs: The agency amortizes bond refunding costs using the straight-line method. Bonds payable are reported net of the unamortized bond refunding costs.
3. Interest Accretion: The difference between the face amount of deep discount bonds and the public offering price is not treated as bond discount. Deep discount bonds are subject to redemption at prices which increase from the public offering price up to the face amount. The carrying amount of these bonds is adjusted monthly to reflect the increased liability, with a corresponding charge to interest expense.
4. Mortgage Discount: Discounts on 30-year mortgage loans purchased by the agency are amortized using the straight-line method over 17 years, the estimated average life of mortgages. The amount amortized is credited to interest income.

f. Cash and Cash Equivalents

In addition to demand deposits, petty cash, and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

g. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies; obligations guaranteed by the U.S.; public housing bonds secured by contracts with the U.S.; direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee; obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation; interest bearing time or demand deposits; collateralized certificates of deposit in authorized state depositories; and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value.

h. Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

i. Mortgages

Mortgages are carried at their original amount less principal collected.

j. Reclassifications

Effective June 30, 2001, the agency discontinued reporting warrants payable as a liability on the balance sheet. The issuance of warrants, rather than the subsequent acceptance by the treasurer of the

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warrants, is deemed to effectively reduce the cash balance. The June 30, 2000, warrants payable amount previously reported has been reclassified against the cash balance for comparative purposes.

The agency has prepared the Statements of Cash Flows using the direct method of reporting cash flows. The direct method presents the cash receipts and cash disbursements of the agency for the year, including cash flows from operating activities. Operating activities are generally the cash effects of transactions and other events that enter into the determination of operating income. A reconciliation of the operating income to net cash flow from operating activities is also presented in this statement. The Statement of Cash Flows for the year ended June 30, 2000, was previously presented using the indirect method of reporting cash flows. Under the indirect method, the operating income is reconciled to the net cash flow from operating activities and nonoperating cash receipts and cash disbursements are presented. The June 30, 2000, statement has been restated using the direct method of reporting cash flows for comparative purposes.

In addition, certain other less significant amounts have been reclassified for comparative purposes.

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

Until December 10, 2000, all of the agency's deposits were in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure. After December 10, 2000, some of the agency's deposits were in financial institutions that do not participate in the bank collateral pool.

At June 30, 2001, the carrying amount of the agency's deposits was \$21,857,503, and the bank balance was \$23,215,763. Of the bank balance, \$22,571,853 was insured and \$643,910 was uninsured and uncollateralized. From December 11, 2000, to June 30, 2001, the agency had uncollateralized deposits in varying amounts as high as \$4,176,875 due to significantly higher cash flows at certain times during this period.

At June 30, 2000, the carrying amount of the agency's deposits was \$17,686,910, and the bank balance was \$19,327,472. All bank balances were insured.

The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was \$32,697,885 on June 30, 2001 and \$28,132,178 on June 30, 2000. The pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2001 and June 30, 2000.

b. Investments

The agency's investments are categorized to indicate the level of custodial risk assumed by the agency at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the agency or its agent in the agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the agency's name. Investments are categorized as follows:

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June 30, 2001			
	Category		
	<u>1</u>	<u>2</u>	<u>3</u>
			Fair Value
Cash equivalents and short-term investments			
Repurchase agreements	\$ 116,502,020		\$ 3,997,980
U S government securities	247,076,397		
State & local government securities	90,000		
Total cash equivalents and short-term investments	<u>\$ 363,668,417</u>		<u>\$ 3,997,980</u>
Long-term investments			
U S government securities	\$ 418,933,739		\$ 418,933,739
State & local government securities	549,191		
Total long-term investments	<u>\$ 419,482,930</u>		<u>\$ 419,482,930</u>
Total	<u><u>\$ 783,151,347</u></u>		<u><u>\$ 3,997,980</u></u>

June 30, 2000			
	Category		
	<u>1</u>	<u>2</u>	<u>3</u>
			Fair Value
Cash equivalents and short-term investments			
Repurchase agreements	\$ 183,192,996		\$184,004
U S government securities	132,686,634		
Total cash equivalents and short-term investments	<u>\$ 315,879,630</u>		<u>\$184,004</u>
Long-term investments			
U S government securities	\$ 390,607,096		\$ 390,607,096
State & local government securities	1,016,636		
Total long-term investments	<u>\$ 391,623,732</u>		<u>\$ 391,623,732</u>
Total	<u><u>\$ 707,503,362</u></u>		<u><u>\$184,004</u></u>

NOTE 3. CHECKS PAYABLE

This amount represents the sum of checks written in excess of the agency's checking account balance because of the agency's use of a controlled disbursement account. Through the use of a controlled disbursement account, the agency maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

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NOTE 4. REVENUE BONDS AND NOTES PAYABLE

a. Bonds Issued and Outstanding

The following tables are a summary of bonds issued and outstanding as of June 30, 2001, and June 30, 2000.

BONDS ISSUED							BONDS OUTSTANDING	
(Thousands)							(Thousands)	
SERIAL BONDS				TERM BONDS				
<u>Series</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>	<u>06-30-2001</u>	<u>06-30-2000</u>
<u>MORTGAGE FINANCE PROGRAM BONDS</u>								
1993A	1/1/99-7/1/2008	\$136,420	4.70 to 5.70	7/1/2010	\$ 15,365	5.800		
				7/1/2013	25,540	5.850		
				7/1/2018	28,815	5.900		
				7/1/2028	59,770	5.950	\$234,920	\$246,310
1994A	1/1/96-7/1/2009	14,760	4.4 to 6.35	1/1/2019	20,835	6.400		
				7/1/2025	24,405	6.900	36,620	40,315
1994B	7/1/96-7/1/2011	30,095	4.50 to 6.40	7/1/2014	10,015	6.450		
				7/1/2019	21,810	6.550		
				7/1/2025	38,080	6.600	62,805	69,670
1995A	1/1/97-7/1/2008	14,270	5.45 to 6.55	7/1/2010	3,735	6.650		
				7/1/2014	9,350	6.850		
				7/1/2020	20,485	7.050		
				7/1/2026	32,160	7.125	48,230	53,525
1995B				7/1/2015	3,135	6.150		
				7/1/2018	12,155	6.200	15,290	15,290
1995C	1/1/97-7/1/2009	22,990	4.8 to 5.95	7/1/2015	15,300	6.100		
				7/1/2021	14,685	6.450		
				7/1/2026	31,735	6.550	51,735	58,690
TOTAL MORTGAGE								
FINANCE PROGRAM BONDS		\$218,535			\$ 387,375		\$449,600	\$483,800

HOMEOWNERSHIP PROGRAM BONDS

Issue G	7/1/89-7/1/2002	\$ 16,345	5.25 to 7.5	7/1/2006	\$ 8,500	7.650	\$ 5	\$ 3,450
Issue K	7/1/92-7/1/2003	18,960	6.4 to 7.7	7/1/2021	52,755	8.125		
				7/1/2004 to 7/1/2008	3,060	8.10	1	1
						Interest accretion	2	2
Issue M				7/1/2017	28,740	7.125	25,340	25,340
Issue N	7/1/91-7/1/2008	29,000	6.7 to 7.5	7/1/2011	8,725	7.600		
				7/1/2020	19,275	7.650	5	9,765
Issue O	7/1/91-7/1/2005	21,580	6.4 to 7.5	7/1/2009	10,675	7.700		
				7/1/2020	51,745	7.750	480	9,875
Issue P	7/1/97-7/1/2010	17,540	6.85 to 7.50	7/1/2016	22,460	7.700	7,851	9,874
						Interest accretion	9,767	10,683
Issue S	7/1/92-7/1/2005	16,210	6.2 to 7.4	7/1/2010	10,985	7.500		
				7/1/2022	51,405	7.625	1,700	6,215
Issue T	7/1/92-7/1/2002	9,560	5 to 6.75	7/1/2011	15,875	7.300		
				7/1/2023	46,940	7.375	47,000	66,170
Issue U	7/1/00-7/1/2006	10,570	6.40 to 6.95	7/1/2011	11,460	7.350		
				7/1/2016	15,660	7.400	22,245	24,900
Issue V	7/1/92-7/1/99	7,725	5.30 to 6.55	7/1/2022	29,585	7.650	5	5
Issue WR	7/1/94-7/1/2007	15,020	4.25 to 6.45	7/1/2012	9,725	6.700		

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				7/1/2017	25,155	6.800	36,250	39,740
Issue Y1	1/1/95-7/1/2007	4,860	3.50 to 5.60	7/1/2013	3,660	5.800		
				7/1/2017	3,245	5.900	9,405	9,760
Issue Z1	1/1/95-7/1/2007	5,505	3.75 to 5.85	7/1/2013	3,535	6.000		
				7/1/2023	16,250	5.375		
				7/1/2024	12,945	6.100	19,765	21,795
Issue Y2	1/1/04-7/1/2007	1,520	5.00 to 5.20	7/1/2013	2,965	5.450		
				7/1/2017	2,575	5.550	6,890	6,890
Issue Z2	1/1/95-7/1/2003	3,790	3.5 to 5.0	7/1/2023	12,000	5.000		

BONDS ISSUED							BONDS OUTSTANDING			
(Thousands)							(Thousands)			
SERIAL BONDS				TERM BONDS						
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	06-30-2001	06-30-2000		
HOMEOWNERSHIP PROGRAM BONDS (cont.)										
1995-1	1/1/97-7/1/2010	16,965	4.35 to 6.05	7/1/2024	7,150	5.750	11,480	13,210		
				7/1/2016	13,060	6.350				
				7/1/2021	15,635	6.400				
1996-1A	7/1/97	290	4.00	1/1/2026	19,340	6.480	26,855	27,305		
				7/1/98-	12,225	4.10 to				
				7/1/2012		5.60				
				7/1/2015	4,210	5.700				
				7/1/2017	3,255	5.750				
1996-1B	7/1/2010-1/1/2011	805	5.35 to 5.45	7/1/2022	10,090	5.800	32,570	35,030		
				1/1/2026	9,125	5.850				
									805	805
1996-2A	1/1/98-7/1/2014	20,310	4.40 to 6.15	7/1/2016	4,675	6.000				
				7/1/2022	18,360	6.350				
				1/1/2027	18,835	6.375	53,420	55,820		
1996-2B	7/1/2009-1/1/2011	2,820	5.70 to 5.80				2,820	2,820		
1996-3	7/1/99-7/1/2012	16,490	4.30 to 5.65	7/1/2017	10,670	5.850				
				7/1/2023	18,540	5.850				
				1/1/2028	19,300	6.000	41,615	42,200		
1996-4 A	7/1/98-7/1/2011	13,535	4.35 to 6.00	7/1/2016	8,975	6.050				
				7/1/2022	15,485	6.375				
				1/1/2027	16,400	6.450	50,625	51,770		
1996-4 B	1/1/2011	605	5.85				605	605		
1996-5A	7/1/99-7/1/2012	8,180	4.00 to 5.35	7/1/2017	4,825	5.500				
				7/1/2023	7,935	5.550				
				7/1/2028	9,060	5.750	29,090	29,555		
1996-5B	7/1/99- 7/1/2012	8,880	3.85 to 5.05	7/1/2017	4,835	5.000				
				7/1/2023	7,700	5.375				
				7/1/2028	8,585	5.400	28,855	29,340		
1997-1	7/1/99-7/1/2012	16,385	4.00 to 5.10	7/1/2017	9,695	5.000				
				7/1/2023	15,845	5.375				
				1/1/2028	15,960	5.400	55,860	56,875		
1997-2	7/1/2000- 7/1/2013	15,040	3.20 to 4.75	01/01/2018	7,495	5.100				
				01/01/2024	13,040	5.150				
				01/01/2029	14,425	5.200	49,315	50,000		
1997-3A	1/1/98-7/1/2008	40,911	4.00 to 5.35	7/1/2012	23,174	5.125				
				1/1/2017	1,133	5.875				
				7/1/2017	2,746	5.875	43,749	48,666		
1997-3B					Interest accretion		9,245	7,290		
				7/1/2016	20,044	5.725	20,044	20,044		
					Interest accretion		4,697	3,339		
1998-1	7/1/2001-7/1/2014	14,800	3.95 to 5.20	1/1/2019	7,500	5.250				
				1/1/2024	10,655	5.300				
				1/1/2030	17,045	5.400	49,575	49,985		
1998-2	7/1/2000- 7/1/2012	7,850	4.00 to 5.05	7/1/2017	4,620	5.100				

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				7/1/2023	7,385	5.350		
				7/1/2029	10,145	5.375	29,350	29,950
1998-3A	7/1/2000- 7/1/2001	700	3.70 to 3.90	1/1/2024	11,135	5.250		
				1/1/2030	13,365	5.300	24,110	25,200
1998-3B	7/1/2001- 7/1/2012	9,475	3.80 to 4.80	1/1/2017	5,325	5.000	14,800	14,800
1998-3C	7/1/2001- 7/1/2013	9,325	4.30 to 5.50	1/1/2020	8,000	6.000		
				1/1/2025	8,545	6.125		
				1/1/2031	14,130	6.150	40,000	40,000
1999-1A	7/1/2001 – 7/1/2014	11,090	3.95 to 5.20	1/1/2019	5,615	5.250		
				1/1/2024	7,980	5.300		
				1/1/2031	15,315	5.400	39,695	40,000
1999-1B				7/1/2019	1,000	6.250	1,000	1,000
1999-2A	7/1/2001 - 7/1/2014	25,500	4.25 to 5.45	7/1/2018	11,625	5.600		
				7/1/2025	20,985	5.650		
				7/1/2031	34,220	5.700	92,060	92,325
1999-2B				7/1/2020	7,670	5.500	7,670	7,670

BONDS ISSUED						BONDS OUTSTANDING		
(Thousands)						(Thousands)		
SERIAL BONDS			TERM BONDS					
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	06-30-2001	06-30-2000
HOMEOWNERSHIP PROGRAM BONDS (cont.)								
1999-2C				8/15/2000	50,000	3.570	-0-	50,000
1999-3	7/1/2001 – 7/1/2013	25,630	4.30 to 5.50	1/1/2020	22,025	6.000		
				1/1/2025	23,495	6.125		
				1/1/2031	38,850	6.150	109,750	110,000
2000-1	7/1/2001 – 7/1/2014	24,945	4.60 to 6.05	7/1/2020	19,230	6.125		
				7/1/2025	22,525	6.375		
				7/1/2031	38,300	6.400	104,965	105,000
2000-2A				1/1/2031	22,000	7.930	22,000	22,000
2000-2B	7/1/2001 – 7/1/2015	24,060	5.00 to 6.20	1/1/2020	12,770	6.250		
				1/1/2026	23,585	6.250		
				7/1/2030	10,000	6.350		
				1/1/2031	17,585	6.350	88,000	88,000
2001-1A				7/1/2001	4,250	3.410		
				1/1/2021	14,235	5.550		
				7/1/2021	1,015	5.550		
				7/1/2032	23,430	5.650	42,930	-0-
2001-1B	1/1/2002 – 7/1/2011	12,635	3.25 to 4.70	1/1/2018	11,825	5.375	24,460	-0-
2001-1C				1/1/2021	27,260	4.95	27,260	-0-
2001-1D				7/1/2015	40,740	4.70	40,740	-0-
TOTAL HOMEOWNERSHIP PROGRAM BONDS		\$505,411			\$1,517,107		\$1,406,726	\$1,395,069
		1			7			
TOTAL ALL ISSUES		\$723,946			\$1,904,482		\$1,856,326	\$1,878,869
		6			2			

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2001 are as follows (expressed in thousands):

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For the Year(s) Ending			Total
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2002	\$ 43,030	\$ 102,113	\$ 145,143
2003	44,772	102,372	147,144
2004	46,199	100,430	146,629
2005	51,952	99,784	151,736
2006	57,481	99,204	156,685
2007 – 2011	279,780	442,236	722,016
2012 – 2016	340,136	371,550	711,686
2017 – 2021	376,470	250,906	627,376
2022 – 2026	345,075	129,665	474,740
2027 – 2031	236,755	38,201	274,956
2032 – 2033	10,965	434	11,399
Total	<u>\$1,832,615</u>	<u>\$1,736,895</u>	<u>\$ 3,569,510</u>

The debt principal in the preceding table is \$23.7 million less than that presented in the accompanying financial statements. This amount, representing the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds, has been reported as bond principal in the financial statements; it has been reported here as interest in those years (2002-2017) in which the bonds mature.

c. Redemption of Bonds and Notes

During the year ended June 30, 2001, prepayments were used to retire bonds at par before maturity in the Mortgage Finance Program in the amount of \$3,050,000 and in the Homeownership Program in the amount of \$20,587,888. The respective carrying values of these bonds were \$3,023,869 and \$20,430,666. This resulted in a loss to the Mortgage Finance Program of \$26,131 and the Homeownership Program of \$157,222.

On July 1, 2000, the agency used \$29,913,856 of Homeownership Program Bonds, Issue 2000-2 A&B and \$5,270,000 of Homeownership Program Notes, Issue 2000-2 C&D to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$16,098,616 early redemption and \$19,085,240 current maturities). The carrying amount of these bonds was \$35,058,361. The refunding resulted in a difference of \$125,495 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031. The refunding increased the agency's debt service by \$55,516,231 over the next 32 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$6,692,462.

On August 15, 2000, the agency used \$29,131,144 of Homeownership Program Bonds, Issue 2000-2 A&B and \$20,865,000 of Homeownership Program Notes, Issue 2000-2 C&D to refund Homeownership Program Bond Issue 1999-2C, which matured on this date.

On December 15, 2000, the agency issued \$200,000,000 of convertible drawdown notes, 2000CN-1, of which \$44,705,000 was drawn down to refund on January 2, 2001 certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$35,960,000 early redemption and \$8,745,000 current maturities). The carrying amount of these bonds was \$44,401,481. The refunding resulted in a difference of \$303,519 between the reacquisition price and the net carrying amount of the old debt. This difference is charged to current operations. This refunding was accomplished using

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NOTES TO THE FINANCIAL STATEMENTS (CONT.)

JUNE 30, 2001, AND JUNE 30, 2000

proceeds of short-term debt, which will in turn be refunded upon maturity; therefore, the full economic impact of the refunding was not determined as of June 30, 2001.

On March 13, 2001, the agency drew down \$31,180,000 of convertible drawdown notes, 2000CN-1. These proceeds were used to refund Homeownership Program Notes, Issue 2000-2 C&D, which matured on March 15, 2001.

On May 31, 2001 the agency issued \$135,390,000 in Homeownership Program Bonds, Issue 2001-1 A, B, C & D, of which \$127,530,000 will be used on July 1, 2001 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$117,170,000 early redemption and \$10,360,000 current maturities).

On June 25, 2001, the agency drew down \$8,980,000 of convertible drawdown notes, 2000CN-1. These proceeds will be used on July 1, 2001 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$900,000 early redemption and \$8,080,000 current maturities).

During the year ended June 30, 2000, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of \$10,175,000 and in the Homeownership Program in the amount of \$31,887,921. The respective carrying values of these bonds were \$10,101,570 and \$31,634,893. This resulted in a loss to the Mortgage Finance Program of \$73,430 and the Homeownership Program of \$253,028.

On July 1, August 12, and September 10, 1999, the agency used \$60,205,000 of Bond Issue 1999-1, which were issued on June 17, 1999, to refund certain bonds and notes previously issued in the

Mortgage Finance Program, the Homeownership Program and the 1999CN-1 Single Family Mortgage Note Program. The carrying amount of those bonds and notes was \$59,789,149. The refunding resulted in a difference of \$415,851 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022. The agency completed the refunding to reduce its total debt service over the next 31 years by \$14,614,562 and realized an economic gain (the difference between the present values of the old and new debt service payments) of \$16,430,410.

On July 29, 1999, the agency issued \$150,000,000 in Homeownership Program Bonds, Issue 1999-2, of which \$43,105,000 was used on September 9 and 10, 1999 to refund certain bonds and notes previously issued in the Homeownership Program and the 1999CN-1 Single Family Mortgage Note Program. The carrying amount of those bonds and notes was \$42,731,578. The refunding resulted in a difference of \$373,422 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022. The agency completed the refunding to reduce its total debt service over the next 31 years by \$9,094,543 and realized an economic gain (the difference between the present values of the old and new debt service payments) of \$16,502,378.

On October 20, 1999, the agency remarketed \$40,000,000 in Homeownership Program Bonds, Issue 1998-3. The total amount of this bond issue was \$80,000,000, of which \$62,885,000 was used on December 2, 1998 to refund certain bonds and notes in the Mortgage Finance Program, the Homeownership Program and the Convertible Notes 1997 CN-1. The agency completed the refunding to reduce its total debt service over the next 31 years by \$5,231,934 and realized an economic gain (the difference between the present values of the old and new debt service payments) of \$10,042,943. Also on this date, the agency issued \$110,000,000 in Homeownership Program Bonds, Issue 1999-3, of which \$32,645,000 (\$23,680,000 early redemption and \$8,965,000 current maturities) was used on January 1, 2000 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of those bonds was \$23,449,331. The refunding resulted in a difference of \$230,669 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026. The agency completed

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2001, AND JUNE 30, 2000

the refunding to reduce its total debt service over the next 31 years by \$1,754,403 and realized an economic gain (the difference between the present values of the old and new debt service payments) of \$15,633,882.

On February 17, 2000, the agency issued \$105,000,000 in Homeownership Program Bonds, Issue 2000-1, of which \$27,670,852 was used on April 1, 2000 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of those bonds and notes was \$27,437,214. The refunding resulted in a difference of \$233,638 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031. The agency completed the refunding to reduce its total debt service over the next 31 years by \$6,697,095 and realized an economic gain (the difference between the present values of the old and new debt service payments) of \$1,801,518.

On June 15, 2000, the agency issued \$110,000,000 in Homeownership Program Bonds, Issue 2000-2 A & B, and \$31,180,000 in Homeownership Program Notes, Issue 2000-2 C & D of which \$34,000,000 (\$28,955,000 bonds and \$5,045,000 notes) was used on June 15, 2000 to refund current maturities of bonds previously issued in the Homeownership Program. An additional \$85,180,000 (\$59,045,000 bonds and \$26,135,000 notes) of the proceeds will be used on July 1, and August 15, 2000 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. Also on this date, the agency remarketed \$1,000,000 of Homeownership Program Bonds, Issue 1999-1B.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2001, AND JUNE 30, 2000

Details of the bond retirements by issue are as follows:

Year Ended June 30, 2001

Date of Call	Issue	Par Value	Carrving Amount	Expense/ Loss	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS						
07/01/2000	94A	\$ 1,285,000	\$ 1,278,783		(\$6,217)	Current Refunding
07/01/2000	94B	1,920,000	1,906,195		(13,805)	Current Refunding
07/01/2000	95A	1,390,000	1,377,264		(12,736)	Current Refunding
07/01/2000	95C	990,000	981,423		(8,577)	Current Refunding
07/01/2000	95C	1,690,000	1,675,358	(\$14,642)		Prepayments
01/01/2001	94A	1,505,000	1,497,855	(7,145)		Current Refunding
01/01/2001	94B	3,405,000	3,381,149	(23,851)		Current Refunding
01/01/2001	95A	2,890,000	2,864,199	(25,801)		Current Refunding
01/01/2001	95C	1,425,000	1,412,961	(12,039)		Current Refunding
01/01/2001	95C	1,360,000	1,348,511	(11,489)		Prepayments
Sub-Total-		\$17,860,000	\$17,723,698	(\$94,967)	(\$41,335)	
HOMEOWNERSHIP PROGRAM BONDS						
07/01/2000	89N	\$ 1,585,000	\$ 1,568,658	(\$16,342)		Prepayments
07/01/2000	89O	5,300,000	5,262,195		(\$37,805)	Current Refunding
07/01/2000	89O	1,350,000	1,340,371	(9,629)		Prepayments
07/01/2000	90P	538,616	536,800		(1,816)	Current Refunding
07/01/2000	90P	615,478	613,402	(2,076)		Prepayments
07/01/2000	90S	2,865,000	2,835,393		(29,607)	Current Refunding
07/01/2000	90T	625,000	619,644		(5,356)	Current Refunding
07/01/2000	91U	290,000	287,500		(2,500)	Current Refunding
07/01/2000	91U	425,000	421,336	(3,664)		Prepayments
07/01/2000	91W	940,000	930,966	(9,034)		Prepayments
07/01/2000	92Z1	500,000	496,048		(3,952)	Current Refunding
07/01/2000	92Z1	160,000	158,735	(1,265)		Prepayments
07/01/2000	92Z2	395,000	391,876		(3,124)	Current Refunding
07/01/2000	92Z2	125,000	124,011	(989)		Prepayments
07/01/2000	96-1	870,000	864,498	(5,502)		Prepayments
07/01/2000	96-2	710,000	704,828	(5,172)		Prepayments
07/01/2000	96-4	285,000	282,296	(2,704)		Prepayments
07/01/2000	97-1	95,000	94,144	(856)		Prepayments
07/01/2000	97-2	20,000	19,878	(122)		Prepayments
07/01/2000	97-3	2,465,591	2,450,851	(14,740)		Prepayments
07/01/2000	98-1	45,000	44,570	(430)		Prepayments
07/01/2000	98-2	35,000	34,665	(335)		Prepayments
07/01/2000	98-3	65,000	64,303	(697)		Prepayments
07/01/2000	99-2	15,000	14,912	(88)		Prepayments
01/02/2001	86G	2,370,000	2,357,901	(12,099)		Current Refunding
01/02/2001	89N	5,015,000	4,963,035	(51,965)		Current Refunding
01/02/2001	89N	1,610,000	1,593,317	(16,683)		Prepayments
01/02/2001	89O	1,175,000	1,170,710	(4,290)		Prepayments
01/02/2001	90S	480,000	476,724	(3,276)		Prepayments
01/02/2001	90T	17,505,000	17,348,622	(156,378)		Current Refunding
01/02/2001	91U	890,000	882,458	(7,542)		Prepayments
01/02/2001	91W	1,530,000	1,515,572	(14,428)		Prepayments
01/02/2001	92Z1	1,035,000	1,027,014	(7,986)		Current Refunding
01/02/2001	92Z2	810,000	803,745	(6,255)		Current Refunding
01/02/2001	92Z2	95,000	94,266	(734)		Prepayments
01/02/2001	96-1	600,000	596,293	(3,707)		Prepayments
01/02/2001	96-2	740,000	734,730	(5,270)		Prepayments
01/02/2001	96-4	50,000	49,536	(464)		Prepayments
01/02/2001	97-2	245,000	243,543	(1,457)		Prepayments
01/02/2001	97-3	1,346,819	1,339,315	(7,504)		Prepayments
01/02/2001	98-1	365,000	361,608	(3,392)		Prepayments
01/02/2001	98-2	105,000	104,021	(979)		Prepayments
01/02/2001	98-3	710,000	702,578	(7,422)		Prepayments
01/02/2001	99-1	305,000	302,334	(2,666)		Prepayments

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2001, AND JUNE 30, 2000

Year Ended June 30, 2001 (cont.)

Date of Call	Issue	Par Value	Carrving Amount	Expense/ Loss	Deferred Amount	Source of Funds
HOMEOWNERSHIP PROGRAM BONDS (cont.)						
01/02/2001	99-2	250,000	248,578	(1,422)		Prepayments
01/02/2001	99-3	250,000	247,892	(2,108)		Prepayments
01/02/2001	2000-1	35,000	34,767	(233)		Prepayments
	Sub-Total	<u>\$57,836,504</u>	<u>\$57,360,439</u>	<u>(\$391,905)</u>	<u>(\$84,160)</u>	
	Total	<u>\$75,696,504</u>	<u>\$75,084,137</u>	<u>(\$486,872)</u>	<u>(\$125,495)</u>	

Year Ended June 30, 2000

Date of Call	Issue	Par Value	Carrving Amount	Expense/ Loss	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS						
07/01/99	94A	\$ 2,485,000	\$ 2,472,503		(\$12,497)	Current Refunding
07/01/99	94B	4,815,000	4,778,665		(36,335)	Current Refunding
07/01/99	95A	9,460,000	9,369,057		(90,943)	Current Refunding
07/01/99	95C	145,000	143,684		(1,316)	Current Refunding
07/01/99	95C	3,600,000	3,567,327	(\$32,673)		Prepayments
09/01/99	93A	3,845,000	3,828,457	(16,543)		Prepayments
01/01/2000	94A	1,400,000	1,393,096		(6,904)	Current Refunding
01/01/2000	94B	2,785,000	2,764,477		(20,523)	Current Refunding
01/01/2000	95A	2,050,000	2,030,752		(19,248)	Current Refunding
01/01/2000	95C	855,000	847,416		(7,584)	Current Refunding
01/01/2000	95C	2,730,000	2,705,786	(24,214)		Prepayments
04/01/2000	94A	2,030,000	2,020,136		(9,864)	Current Refunding
04/01/2000	94B	4,575,000	4,541,863		(33,137)	Current Refunding
04/01/2000	95A	3,325,000	3,294,291		(30,709)	Current Refunding
04/01/2000	95C	2,025,000	2,007,328		(17,672)	Current Refunding
	Sub-Total-	<u>\$ 46,125,000</u>	<u>\$45,764,838</u>	<u>(\$73,430)</u>	<u>(\$286,732)</u>	

HOMEOWNERSHIP PROGRAM BONDS

07/01/99	88J	\$ 7,135,000	\$ 7,071,784		(\$63,216)	Current Refunding
07/01/99	88K	15,189,030	15,089,849		(99,181)	Current Refunding
07/01/99	90S	32,430,000	32,092,082		(337,918)	Current Refunding
07/01/99	91W	315,000	311,700	(\$3,300)		Prepayments
07/01/99	91X	1,530,000	1,513,974	(16,026)		Prepayments
07/01/99	92Z1	2,020,000	2,003,277	(16,723)		Prepayments
07/01/99	92Z2	825,000	818,162	(6,838)		Prepayments
07/01/99	96-1	740,000	735,106	(4,894)		Prepayments
07/01/99	96-2	1,225,000	1,215,678	(9,322)		Prepayments
07/01/99	96-4	250,000	247,524	(2,476)		Prepayments
07/01/99	97-3	4,397,769	4,367,691	(30,078)		Prepayments
09/10/99	90S	14,420,000	14,272,133		(147,867)	Current Refunding
01/01/2000	89M	14,140,000	13,987,696		(152,304)	Current Refunding
01/01/2000	89M	3,915,000	3,872,831	(42,169)		Prepayments
01/01/2000	89O	1,175,000	1,166,486	(8,514)		Prepayments
01/01/2000	90P	2,039,847	2,032,557	(7,290)		Prepayments
01/01/2000	90S	2,450,000	2,425,894		(24,106)	Current Refunding
01/01/2000	91U	2,090,000	2,070,888	(19,112)		Prepayments
01/01/2000	91W	2,040,000	2,019,504	(20,496)		Prepayments
01/01/2000	92Z1	880,000	872,880	(7,120)		Prepayments
01/01/2000	92Z2	390,000	386,842	(3,158)		Prepayments
01/01/2000	96-1	1,215,000	1,207,140	(7,860)		Prepayments
01/01/2000	96-2	1,875,000	1,861,036	(13,964)		Prepayments
01/01/2000	96-4	505,000	500,103	(4,897)		Prepayments
01/01/2000	97-1	45,000	44,586	(414)		Prepayments
01/01/2000	97-3	4,380,305	4,352,268	(28,037)		Prepayments
01/01/2000	98-1	15,000	14,854	(146)		Prepayments
01/01/2000	98-2	20,000	19,806	(194)		Prepayments
04/01/2000	89M	245,000	242,417		(2,583)	Current Refunding
04/01/2000	89O	245,000	243,376		(1,624)	Current Refunding
04/01/2000	90P	248,338	247,494		(844)	Current Refunding

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2001, AND JUNE 30, 2000

Year Ended June 30, 2000 (cont.)

Date of Call	Issue	Par Value	Carrving Amount	Expense/ Loss	Deferred Amount	Source of Funds
HOMEOWNERSHIP PROGRAM BONDS (cont.)						
04/01/2000	90S	12,105,000	11,990,734		(114,266)	Current Refunding
04/01/2000	91U	245,000	242,824		(2,176)	Current Refunding
04/01/2000	91W	245,000	242,592		(2,408)	Current Refunding
04/01/2000	92Z1	750,000	744,033		(5,967)	Current Refunding
04/01/2000	92Z2	615,000	610,095		(4,905)	Current Refunding
04/01/2000	96-1	245,000	243,454		(1,546)	Current Refunding
04/01/2000	96-2	245,000	243,202		(1,798)	Current Refunding
04/01/2000	96-4	160,000	158,471		(1,529)	Current Refunding
04/01/2000	97-1	85,000	84,229		(771)	Current Refunding
04/01/2000	97-3	247,514	245,991		(1,523)	Current Refunding
04/01/2000	98-2	30,000	29,713		(287)	Current Refunding
04/01/2000	99-2	5,000	4,971		(29)	Current Refunding
	Sub-Total	\$133,367,803	\$132,147,927	(\$253,028)	(\$ 966,848)	
	Total	\$179,492,803	\$177,912,765	(\$326,458)	(\$1,253,580)	

Under the bond resolutions, the agency has the option to redeem bonds at an initial price of 103 percent and subsequently at prices declining to par. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for ten years. Certain special redemption options, as governed by the bond resolutions, are permitted prior to that time.

The bonds are secured, as described in the applicable bond resolutions, by the revenues, monies, investments, mortgage loans and other assets in the funds and accounts established by the resolutions.

d. Notes Issued and Outstanding

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of Agency drawdown notes with a maximum aggregate principal amount of \$65,000,000. On April 1, 1999 the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be \$200,000,000.

The Series 2000CN-1 Notes (the "Notes"), dated December 14, 2000 are in the stated principal amount of \$200,000,000; however, the initial principal amount drawn down was \$44,705,000. The Notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date.

On March 13, 2001, the agency initiated a second draw against the 2000CN-1 Notes in the amount of \$31,180,000. On June 25, 2001, the agency initiated a third draw against the 2000CN-1 Notes in the amount of \$8,980,000. The total amount drawn against the note at June 30, 2001 is \$84,865,000.

The Homeownership Program Notes, 2000-2 C & D, are dated June 15, 2000. The notes mature on March 15, 2001, but are subject to optional redemption at par on or after January 1, 2001. Interest on the notes is payable on the date of maturity or upon earlier redemption.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2001, AND JUNE 30, 2000

The following table is a summary of notes issued and outstanding as of June 30, 2001, and June 30, 2000.

NOTES ISSUED (Thousands)			NOTES OUTSTANDING (Thousands)		
<u>Series</u>	<u>Maturity</u>	<u>Stated Principal</u>	<u>Interest Rate (Percent)</u>	<u>06/30/2001</u>	<u>06/30/2000</u>
2000-2C	3/15/2001	\$ 20,865	4.750	\$ -0-	\$20,865
2000-2D	3/15/2001	10,315	4.700	-0-	10,315
2000CN-1	12/13/2001	\$200,000	5.307	84,865	-0-
		<u>\$231,180</u>		<u>\$84,865</u>	<u>\$31,180</u>

NOTE 5. EQUITY

The \$2,500,000 shown as contributed capital on the balance sheet is an appropriation by the State of Tennessee for the Homebuyers Revolving Loan Program, a pilot demonstration program to fund low interest mortgages. Earnings from the Homebuyers Revolving Loan Program are reserved for use in the Homebuyers Revolving Loan Program.

The Reserve for Grant Programs reflects legislation of the State of Tennessee, effective July 1, 1988, which established the Assets Fund, the Housing Program Fund, and the Housing Program Reserve Fund. This legislation restricts to specific uses all agency funds that are not necessary to support the bond and note obligations and which can be withdrawn from the specific funds of the various bond resolutions as provided under the resolutions. These uses include supporting the rental rehabilitation program, construction loans, grants to local governments and nonprofit organizations, and agency operating expenses.

Initially an amount of \$49,018,410 was transferred on the agency's accounting records to the Assets Fund from the General Fund of the Mortgage Finance Program Group. In addition to the monies provided by the agency, TCA Section 13-23-402 allocated a portion of the real estate transfer taxes and the mortgage taxes levied by the State to the Housing Program Fund.

From time to time, the State of Tennessee has called upon the Agency and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to the Agency. On June 30, 1995, \$15,000,000 from the Agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the Agency to the State General Fund. The \$43,000,000 transferred from the Agency came from the following resources of the Agency: (i) \$15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, the Housing Program Reserve Fund was statutorily abolished effective June 30, 1998.

Beginning July 1, 1999 all tax revenue previously directed to the Agency for the Grant Program was redirected to the State General Fund for one year to reduce certain anticipated State budget shortfalls for fiscal year 1999-2000. Subsequently, legislative actions taken in connection with the adoption of the State's fiscal year 2001 budget have redirected all such tax revenue to the State General Fund to reduce certain anticipated State budget shortfalls for fiscal year 2000-2001. This redirection is permanent, consequently, beginning July 1, 2000, no tax revenues were available to the Agency for the Grant Program.

On November 18, 1999 the Agency's Board of Directors approved a \$6,500,000 grant program that will be paid from the General Fund of the Mortgage Finance Bond Group. Of this amount, \$4,800,047 was under

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2001, AND JUNE 30, 2000

contract at June 30, 2000, and is included in the Reserve for Grant Programs. At June 30, 2001, \$3,500,000 remains unexpended and is included in the Reserve for Grant Programs.

The Reserve for Program Bonds represents the equity that is unavailable for transfer from the Homeownership Program as required by the general bond resolution.

NOTE 6. DEFINED BENEFIT PENSION PLAN

The agency contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 6.19% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2001, 2000, and 1999, were \$313,976, \$241,470, and \$255,198. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's Board of Directors has designated \$750,000 of unreserved retained earnings as a provision for possible loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional \$232,000 was designated to provide for losses on loans not specifically covered under one of the above programs, and \$500,000 has been designated for self-insurance of second mortgages.

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

b. Claims Award Fund

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in

the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by

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charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Since the agency participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee provides and administers a group health insurance program which provides post-employment health insurance benefits to eligible agency retirees. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 10. SUBSEQUENT EVENTS

a. Mortgage prepayments, foreclosure proceeds, and bond proceeds were used to call bonds as indicated below:

July 1, 2001	Mortgage Finance Program	\$ 4,710,000
	Homeownership Program	<u>114,909,279</u>
	Total	<u>\$119,619,279</u>
October 1, 2001	Mortgage Finance Program	\$ 8,740,000
	Homeownership Program	<u>35,040,000</u>
	Total	<u>\$ 43,780,000</u>

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- b. Homeownership Program Bonds, Issue 2001-2 was sold August 30, 2001. The bond maturities are as follows:

BONDS ISSUED (Thousands)						
SERIAL BONDS				TERM BONDS		
<u>Series</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>
2001-2A	1/1/2003 – 7/1/2026	\$35,360	3.10 to 5.20	7/1/2029	\$ 9,395	5.300
				7/1/2032	11,050	5.375
2001-2B	1/1/2014 – 7/1/2017	4,195	4.70 to 5.00			
TOTAL		<u>\$39,555</u>			<u>\$20,445</u>	

NOTE 11. EVENTS (UNAUDITED) SUBSEQUENT TO THE DATE OF THE INDEPENDENT AUDITOR'S REPORT

- a. Mortgage prepayments, foreclosure proceeds, and bond proceeds were used to call bonds as indicated below:

January 2, 2002	Mortgage Finance Program	\$ 8,230,000
	Homeownership Program	26,935,242
	Total	<u>\$35,165,242</u>

- b. Homeownership Program Bonds, Issue 2001-3 was sold December 13, 2001. The bond maturities are as follows:

BONDS ISSUED (Thousands)						
SERIAL BONDS				TERM BONDS		
<u>Series</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>
2001-3A	1/1/2003 – 7/1/2011	\$11,040	2.85 to 4.75	7/1/2014	\$ 4,150	5.000
				7/1/2017	4,205	5.100
				7/1/2022	9,835	5.200
				7/1/2027	14,180	5.400
				7/1/2031	12,675	5.450
2001-3B				7/1/2016	1,225	5.000
				7/1/2020	1,500	5.250
				7/1/2032	5,770	5.350
TOTAL		<u>\$11,040</u>			<u>\$53,540</u>	

- c. Series 2001CN-1 Notes, dated December 13, 2001 are in the stated principal amount of \$200,000,000; however, the initial principal amount drawn down on December 13, 2001 was \$52,580,000. The Notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date.